Directorate of
Intelligence

Confidential

China: Economic Outlook for 1983

25X1

An Intelligence Assessment

Confidential

EA 83-10080
May 1983

Copy 315

Page Denied

Approved For Release 2007/11/27 : CIA-RDP84S00553R000200020003-3

Directorate of
Intelligence

Confidential

China: Economic Outlook for 1983 [redacted]

25X1

An Intelligence Assessment

This assessment was prepared by [redacted] of the Office of East Asian Analysis. Comments and queries are welcome and may be directed to the Chief, Domestic Policy Branch, OEA, [redacted]

25X1
25X1
25X1

This report was coordinated with the National Intelligence Council. [redacted]

25X1

Confidential
EA 83-10080
May 1983

Approved For Release 2007/11/27 : CIA-RDP84S00553R000200020003-3

China: Economic Outlook for 1983

25X1

Key Judgments

Information available as of 15 March 1983 was used in this report.

Industrial output this year will continue to be constrained by energy shortages, transport difficulties, and planned cutbacks in investment. The agricultural sector is expected to show some growth, even beyond 1982's record performance, but slow progress on inflation and employment will make overall improvements in living standards difficult to achieve.

With the 1981-85 economic plan finally in place, Beijing is focusing mainly on improving efficiency and energy conservation. The central leadership will have to maintain steady pressure to implement its economic plan goals—especially industrial growth and energy efficiency targets—in the midst of a far-reaching government reorganization. Planners have tightened central control over energy use, investment, and enterprise finances in an effort to avoid the unplanned fluctuations that have plagued the industrial sector for the past two years.

The foreign trade sector will be boosted by a planned 40-percent increase in imports. We believe that declining world prices for oil and the possibility of a drop in domestic oil production will strengthen China's interest in acquiring US energy technology to support additional oil production capacity; oil exports account for 20 percent of China's foreign exchange earnings. Despite currently large foreign exchange reserves and planned slow growth of exports, falling oil revenues may lead the Chinese to try to boost exports of other goods to the United States and elsewhere as the year progresses.

Beijing's planned record imports and current focus on energy problems should create opportunities for US exporters to expand sales of machinery and technology. China's imports of US agricultural goods probably will decline, however, especially if the textile dispute remains unresolved. Overall, US-China trade is likely to be down, and the trend toward a more even balance between US and Chinese exports should continue.

25X1

EA 83-10080
May 1983

China: Economic Indicators

	1980	1981	1982 (*preliminary*)	1983 (*plan*)
Macroeconomic indicators *(gross value of output, billion 1980 yuan)*				
Agriculture	218.88	233.64	250.00	260.00
Industry	497.22	517.81	556.10	578.40
Light	233.33	266.29	281.20	295.30
Heavy	263.89	251.52	274.90	283.10
Production data *(million tons)*				
Grain	320.56	325.02	344.30	342.50
Cotton	2.71	2.97	3.30	3.37
Coal	620.00	622.00	651.00	670.00
Crude oil	105.95	101.22	102.00	100.00
Investment *(billion yuan)*				
Total	NA	66.8	81.0	74.7
Capital construction	53.9	44.3	54.5	50.7
State budget [a] *(billion yuan)*				
Revenues	108.52	108.95	110.69	123.20
Expenditures	121.27	111.49	113.69	126.20
Balance	−12.75	−2.54	−3.00	−3.00
Foreign trade data *(billion US $, f.o.b., except as noted)*				
Imports	19.37	18.11	16.00	22.00
Exports	18.95	21.59	21.84	22.00
Trade balance	−0.42	3.48	5.84	
Crude oil exports (*million tons*)	13.31	13.84	14.68	
Grain imports (*million tons*)	13.67	13.20	14.50	
Exports to United States	1.06	1.87	2.27	
Imports from United States	3.75	3.60	2.91	
Trade balance with United States	−2.70	−1.73	−0.64	
Exports to Japan	4.14	5.03	5.02	
Imports from Japan	5.11	5.08	3.46	
Trade balance with Japan	−0.97	−0.04	1.56	

[a] Official figures. According to Western accounting concepts, loans are not considered revenues; thus, we estimate that 1982 revenues were 104.49 billion yuan, and that the deficit was 9.2 billion yuan.

25X1

China: Economic Outlook for 1983

25X1

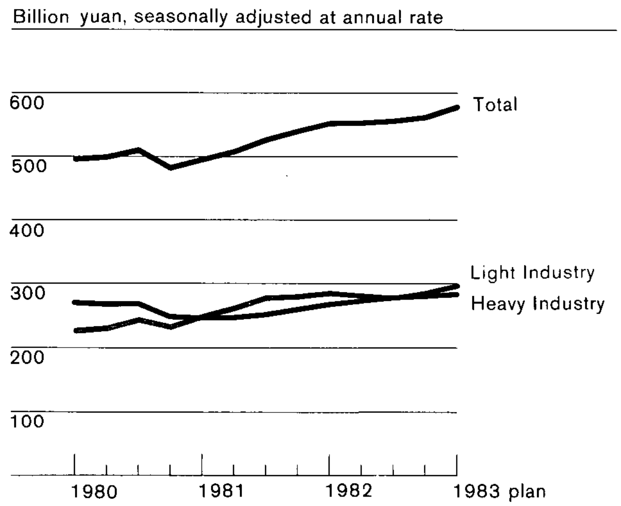
The Economy in 1982

Preliminary data indicate that the Chinese economy grew by about 7 percent in 1982, substantially exceeding plans for the year. Beijing was pleased with performance in the agricultural and foreign trade sectors (see table). However, the degree of overfulfillment of plans for investment and heavy industrial production underlined the continuing difficulties that central planners have in forecasting and controlling production and spending by local authorities.

For the third successive year, investment ran far ahead of the annual plan. Total investment reached 81 billion yuan, several billion yuan more than the 1982 plan and 14.2 billion more than in 1981.[1] Demand for capital goods therefore rose sharply, and production in heavy industry overall was up by 9.3 percent (figure 1). Following 1981's unplanned 4.7-percent decline, the 1982 plan target for heavy industry had been set at a low, 1-percent rate of growth to encourage managers to focus on improving efficiency and reducing energy and raw materials consumption. Beijing may have raised the heavy industry target later in the year after recognizing that the 1-percent increase was inconsistent with investment needs.

Demand for machinery in such key sectors of the economy as energy, agriculture, transportation, and construction rose sharply, however, boosting activity in the machine-building industry. Total machinery production rose by 15.9 percent, considerably more than the planned 5 percent. Output of power-generating equipment was up by 20.2 percent, mining equipment by 16.6 percent, locomotives and freight wagons by over 20 percent, and walking tractors by 46.2 percent. To support new construction efforts, cement output rose by 13.5 and plate glass by 16.5 percent. Chemical and metal production also increased and rolled steel production was up by 8.6 percent.

Figure 1
Chinese Industrial Production, 1980-83[a]



[a] Quarterly data.

25X1

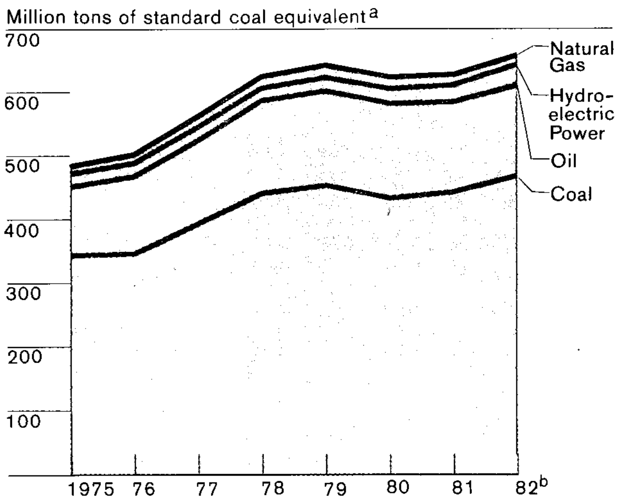
589427 4-83

In response to strong demand from factories in the heavy industrial sector, coal output rose significantly in late 1981 and early 1982, but output leveled off later in the year. With crude oil output stagnating, total energy production for the year was up by 3.8 percent (figure 2). Energy shortages were especially severe in key industrial centers in the east and northeast, and the State Council announced that it would close plants where energy use was especially wasteful and impose tighter restrictions on power use.

Light industrial production was the major exception to the pattern of overfulfillment in 1982. Output was up by 5.6 percent, less than the planned 7 percent and the slowest growth in over five years.

[1] The 1982 plan called for investment in capital construction to reach 44.5 billion yuan; actual spending was 54.5 billion. No plan target is available for total investment, but we presume—on the basis of the capital construction data—that total investment exceeded the plan by about 10 billion yuan.

Figure 2
China: Primary Energy Production, 1975-82



[a]Based on coal yielding 7,000 kilocalories per kilogram.
[b]Projected figures.

589428 4-83

The State Council early in the year ordered cutbacks in the production of consumer durables outside the plan. Attracted by initially strong demand and the prospect of quick profits, numerous factories had shifted to the production of bicycles, radios, televisions, and other popular consumer durables. But many of these factories turned out low-quality goods that consumers refused to buy, and inventories piled up. Partly because of the State Council's actions, by yearend the output of radio sets had dropped by 58 percent, and television production—which had been increasing at extremely rapid rates in recent years—was up by only 3.9 percent. Output of some other consumer durables nevertheless continued their rapid increases; the production of bicycles, for example, was up by 37.6 percent, and that of washing machines by 96.4 percent. Total cloth production rose by 5.9 percent, but cloth made with chemical fibers was down by 14.8 percent.

Agriculture had an excellent year, with new records set for grain and most other crops. Meat and aquatic production edged up, and total agricultural output—including commune and brigade industry—was up by 7 percent. The continuing success of its new agricultural policies led Beijing late in the year to announce a decision to begin dismantling the commune system. The communes, which combine government and economic functions, have been the centerpiece of China's rural development strategy for 25 years. They are now viewed as too large and inefficient to play a useful role under Beijing's increasingly market-oriented agrarian policies.

Beijing's persistent budget deficit continued in 1982. Continuing cutbacks in state operations kept expenditures well below the peak levels of 1979-80, while revenues stagnated (see table). We estimate that the 1982 deficit reached 9.2 billion yuan, triple the officially announced figures of 3.0 billion but less than half 1979's deficit of 20.7 billion yuan. The deficit was financed by increasing currency in circulation and by the sale of 4.2 billion yuan in domestic bonds and 5 billion yuan in foreign loans.

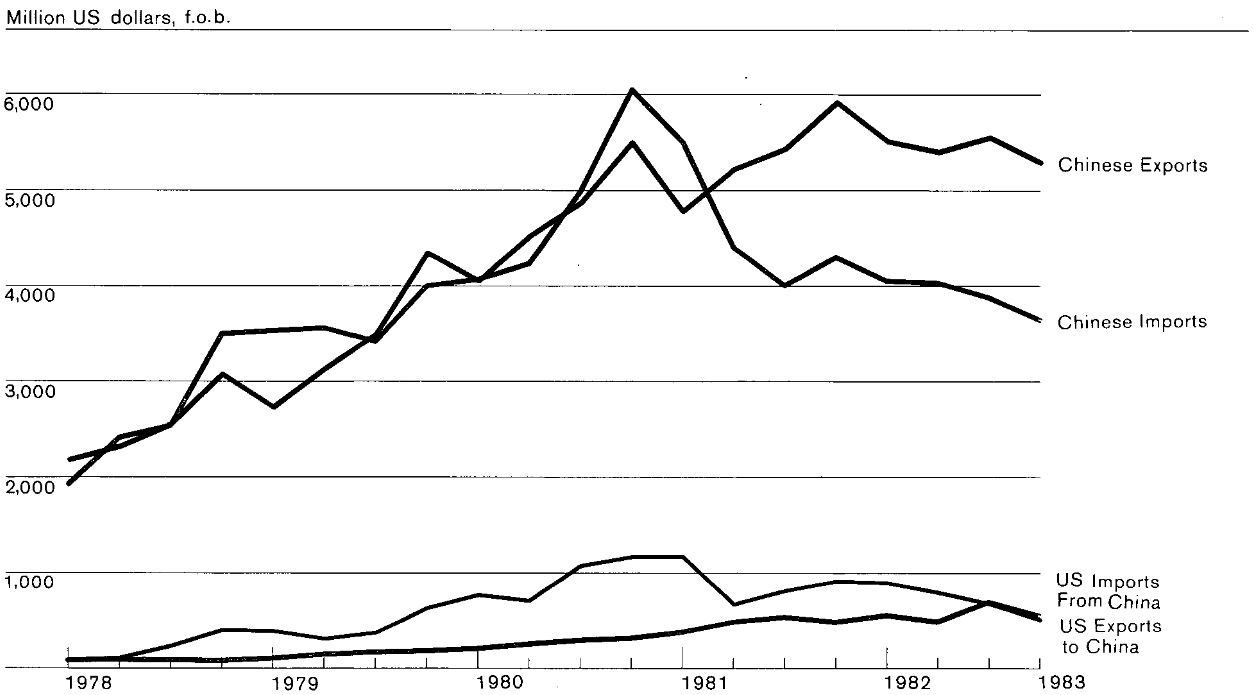
Recent improvements in cash incomes—which Deng Xiaoping and his supporters expect to bolster their political position—have been partly eroded by inflation, and consumers are highly sensitive to further price increases. Unemployment, which may have risen in 1982, remains a problem in urban areas and is rising in the countryside as well. 25X1

Foreign exchange holdings rose to about $10 billion on the strength of a record $6 billion trade surplus. Imports declined for the second straight year to about $16 billion, largely reflecting cutbacks in Chinese orders for machinery and equipment and industrial raw materials (figure 3). Exports were up by 1 percent—the smallest gain in seven years—as sagging world demand kept textile exports down. Oil revenues were up by only 2 percent.

The 1983 Plan

Growth targets have been kept moderate (by past Chinese standards) to allow managers to focus on improving energy efficiency and productivity in the industrial sector (see table for details).

Figure 3
Chinese Foreign Trade, 1978-83[a]



[a] Quarterly data.

589429 4-83

- Overall industrial production is to rise by 4 percent, the same target as in 1982, with heavy industry up by 3 percent. Steel production will be cut to help reduce inventories. This year's 5-percent growth target for light industry is the smallest increase planned for that sector since 1976.

- Energy production is to continue its slow growth in 1983, with coal—the energy industry's mainstay—up by only 3 percent. Beijing anticipates a slight decline in oil output.

- In agriculture the plan target is set at 4-percent growth overall. Grain and cotton—which had record crops and large increases last year—are to remain at about the same level as in 1982. This implies that more rapid growth is planned for other economic crops, livestock production, and rural industry.

- In 1983 the budget will be in deficit for the fifth consecutive year. Expenditures are to increase by 12.5 billion yuan to a near-record 126.2 billion yuan. To keep central revenues up, Beijing is taking back some revenue sources—profits and taxes—that it had previously given the provinces, and the government will continue borrowing to finance part of the deficit and absorb excess purchasing power.

- Investment is to be cut by 8 percent, to 74.7 billion yuan. Budgeted capital construction expenditures are to be up by 12 percent, to 26.1 billion yuan; local spending from retained funds and other sources, which has been a major cause of the investment boom, is to be cut sharply.

- After two years of cutbacks, the 1983 plan calls for nearly a 40-percent increase in imports. The increase—to a record level of about $22 billion—will be led by imports of industrial raw materials, machinery, and technology. Exports are planned to rise by only 1 percent.

Prospects for 1983 Economic Performance

Beijing's most difficult task, this year as last, will be getting industrial managers and local officials to implement the plan in the midst of ongoing political and economic reorganization. In some cases the plan's targets—especially those calling for slower industrial growth and more carefully targeted investment—are contrary to the interests of local authorities. The center is likely to find it particularly difficult to cut back local investment spending, which in turn would continue to boost heavy industry's production and energy demand. Still, Beijing has tightened its control over some key economic planning levers, including energy use, investment, and finance, and may have improved its chances of avoiding the mistakes of 1981-82.

Planners are paying especially close attention this year to investment spending, which was far above target in 1981 and 1982. This year's total is planned to be smaller and directed more to key centrally approved projects. Beijing's Capital Construction Bank is to more closely monitor investment spending by local authorities and factories, but it is uncertain whether its staff has sufficient authority and experience to keep spending under control. Economic management reforms to improve efficiency will be extended on a limited basis, but large-scale price readjustments and other needed broad reforms will not be attempted this year because of continuing political opposition.

The planned growth target for heavy industry appears within reach, but the Chinese must continue to make substantial improvements in energy conservation. They are aware of energy's crucial role—as indicated by the large share of investment going to energy production and the leadership's stress on energy conservation—but we believe they will have difficulty meeting their goals. We estimate that achieving the 1983 targets will require a 3.1-percent rate of energy savings, following a substantial decline in 1982. Beijing will find it increasingly difficult to improve energy efficiency; previous gains were based partly on one-time adjustments from wasteful energy practices, and political obstacles prevent planners from reducing energy demand by raising energy prices to world market levels.

How well Beijing controls the growth and mix of heavy industrial production will largely determine the degree of success in meeting energy conservation and efficiency goals in 1983. Because heavy industry appears to have caused planners the most trouble in 1981-82, it will probably be monitored carefully to see that it stays on track. Enterprises will face even stricter rationing of energy than last year and tighter control over working capital, product quality, and costs. Plant closings and management demotion are threatened for the most inefficient firms. Nevertheless, we have so far seen little indication that the central authorities are prepared to enforce their directives with concrete action.

Prospects for energy production depend mainly on coal, which accounts for over two-thirds of primary energy. Transport shortages will keep coal supplies tight. Onshore oil production is being maintained at just over 100 million tons per year by the use of increasingly expensive recovery methods. With offshore production not scheduled to come on stream until later in this decade, we expect total oil production will drop—perhaps beginning this year—as the payoff from the intensive onshore recovery methods declines.

This year's planned slowdown in light industry should provide an opportunity for producers of consumer goods to adjust their output to market demand. The seller's market that existed in 1979-80, when consumers hungrily snapped up anything that came into the store, has since become a buyer's market. In large urban areas, particularly, people want up-to-date styles and good-quality merchandise, and bank their money rather than buy unfashionable and shoddy items. This has led to a sharp rise in inventories of unsalable goods. Ironically, the growing selectivity of urban consumers and the slow growth in their real incomes may force manufacturers and retail merchants to seek new markets and accomplish what Beijing has been trying to do all along—increase the share of goods going to rural areas, where both the quantities and varieties of consumer goods are still extremely limited.

The replacement of communes by village cooperatives is unlikely to have much effect on agricultural production in 1983. The change will be implemented experimentally at first, and agricultural responsibility systems—under which individuals or groups exercise greater control over production—are already in place in most areas. According to the Chinese press, the new, freer agricultural policies have encouraged a shift away from grain production to more profitable crops; Beijing will attempt to keep grain acreage up this year.

Living standards should improve more slowly than in past years. The leadership expects plant managers to hold wage increases below gains in productivity, and efforts to enforce this rule should have some impact. However, because of the bonus system and the tendency of managers to give in to workers' demands, we believe Beijing will have great difficulty controlling wages. Other factors that will moderate real income growth include: inflationary pressures, which remain strong; and unemployment rates, which will stay in the neighborhood of 10 percent because of the large number of new entrants to the labor force.

With foreign exchange reserves at record levels, Beijing is in a good position to expand imports of industrial raw materials, equipment, and technology. With exports set to increase by only 1 percent, trade should be near balance in 1983 if oil revenues do not decline too sharply. The Chinese have announced that they will seek foreign credits—especially long-term, low interest loans—and that the Bank of China will begin extending export credits to promote sales of Chinese machinery and ships. These moves and the planned import surge indicate that in 1983 Beijing is again encouraging a large Western role in its modernization program.

US firms should gain in 1983 from sales of fertilizer, machinery, and technology. US exports of agricultural goods and synthetic fibers to China, however, have been declining because of increasing domestic production and high US prices. China's criticism of recent US textile restrictions has probably had little impact on bilateral trade to date. If the issue remains unresolved, however, sales of US agricultural products could be adversely affected later this year.

25X1

Approved For Release 2007/11/27 : CIA-RDP84S00553R000200020003-3